



# REPORT 11

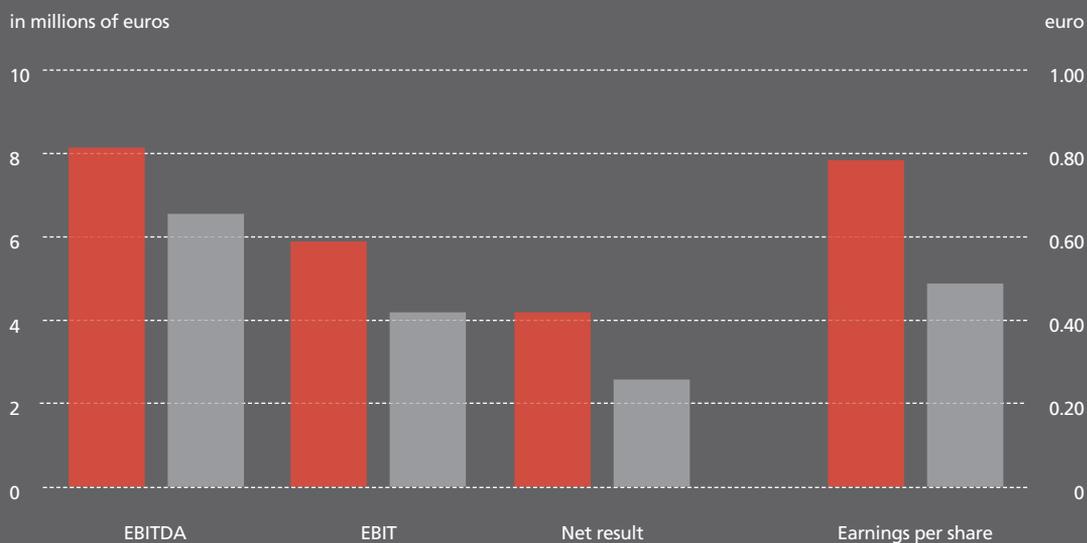
Motor racing | Vehicles and components  
Annual Report 2011



## KEY FIGURES

in millions of euros	2011	2010	2009	2008	2007	2006
Sales income	63.8	44.9	64.8	64.8	60.9	57.6
EBITDA	8.1	6.4	2.6	3.1	12.0	9.7
EBITDA margin (in %)	12.7	14.3	4.0	4.8	19.7	16.8
EBIT	5.9	4.1	-0.2	0.2	9.1	6.9
EBIT margin (in %)	9.3	9.0	-0.3	0.3	15.0	12.0
Net result	4.1	2.5	-1.4	-0.40	5.6	4.2
Earnings per share (in euro)	0.79	0.49	-0.27	-0.08	1.10	0.82

## AT A GLANCE 2011 | 2010



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DTM Zandvoort

- Second place for Bruno Spengler
- Spengler leads the drivers' standings after two races with 18 points



## LETTER TO THE SHAREHOLDERS



Dear shareholders,

The most important news first – HWA AG is in good shape! Our goal for 2011 was to repeat the previous year's successes, but our actual results were rather better than that. Compared with 2010, all our earnings indicators improved, and sales have also increased. The foundations of this success were laid in the two preceding years. With rigorous cost controls and optimisation of our research and production processes, our structure is lean and efficient. This is the key to sustainable profitability.

HWA AG's numbers for 2011 are thoroughly respectable. The good results were largely a reflection of a substantial contract for engine development for a production car in the vehicles and vehicle components segment. The customer is a manufacturer of premium sports vehicles. This medium-term project was already responsible for a substantial increase in sales and an even larger increase in earnings in the preceding financial year. The delivery of the SLS AMG GT3 project, in cooperation with Mercedes-AMG GmbH, also had a positive effect on sales. The leasing and sale of Formula 3 engines came up to expectations. Revenues in the motor racing business have stabilised. As a service provider for the DTM racing series, in 2011 the department was fully taken up with the development of new race cars for the new-look DTM. The new regulations introduced for the 2012 DTM season together with the entry of BMW as third competing manufacturer has led to overall cost reductions for all the participants.

HWA AG's net profit for 2011 came to EUR 4.1 million. Earnings per share climbed from EUR 0.49 to EUR 0.79. Profit before interest and tax (EBIT) increased from EUR 4.1 million to EUR 5.9 million. The EBIT margin was 9.3%. Sales revenues for the year increased by 2% to EUR 63.8 million.

Our respectable results and sound balance sheet again allow us to propose to you – our shareholders – an attractive dividend distribution. I have recommended to the Supervisory Board the payment of a dividend of EUR 0.65 per share. Based on our share's closing price at the end of 2011, this corresponds to a dividend yield of close to 4%. The long-term goal of distributing a minimum of 50% of annual earnings as dividends remains unchanged. For 2011 the payout ratio is above this level.

HWA AG's balance sheet continues to be healthy. The equity ratio is above 56%, which is slightly lower than the previous year because of the increase in total assets. At the end of the financial year HWA AG's cash and cash equivalents stood at EUR 9.6 million compared with EUR 10.5 million at the end of 2010. There are two main reasons for the slight decrease. In 2011 we invested significantly more in our future than in the previous years; cash outflows for investment activities increased to EUR 4.4 million from EUR 0.4 million in 2010.

We also repaid our loans as planned and distributed a dividend. At EUR 0.9 million, net cash at balance sheet date remained unchanged compared with last year. In 2011 the operating cash flow was also satisfactory; at EUR 6.9 million it was nearly as high as in the preceding year. The free cash flow was positive at EUR 2.5 million.

We are cautiously optimistic about the current financial year despite the continuing general economic uncertainties. Our goal is to maintain the income level of 2011 and, ideally, to improve on it. And in addition to business successes, we are also aiming for sporting success. We have had an excellent start to the 2012 racing season. In the first race of the German Touring Car Masters' (DTM) season at Hockenheim we took both first and second places. Gary Paffett won the race and Jamie Green came in second. We want to repeat this success and win more races during the year. Overall we expect a stable business performance from the automobile racing business. In the vehicle / vehicle components business we shall not be able to match last year's high sales figures: deliveries for the SLS AMG GT3 project will decrease in line with plan and will be at a lower level than in 2011. However, a contract for the delivery of engines to a British sports car manufacturer will go some way towards compensating for the absence of sales similar to last year's. Leasing and sales of Formula 3 engines are stabilising. Despite a reduction in sales in 2011, we are optimistic about our future earnings performance.

Our message to our shareholders is that HWA AG continues to be successful, and that we intend to maintain this success. Our outstanding achievements are attributable to one outstanding success factor – people, who are working together form a powerful team. Motivated, talented and extremely well-trained, they have everything required to continue to shape a positive future. With high levels of commitment, experience and enthusiasm – day by day, month by month, year in, year out – we are aiming to have more success stories to present. We are very well prepared and are definitely surging ahead.

HWA AG is in excellent shape, and on the right course. We are facing an exciting future – a future that we want to help to create. We have the right staff for the job, people who put their heart and soul into their work but also use intelligence, team spirit and open-mindedness not only in arriving at the right decisions but also in putting them into practice.

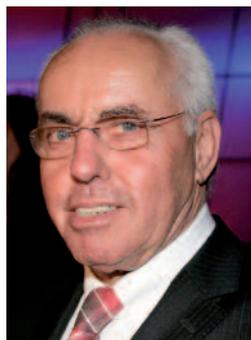
Finally, my heartfelt thanks to our customers and partners, our shareholders, the Supervisory Board, and everyone who has contributed to HWA AG's success – and to our staff in particular.

Affalterbach, April 2011



Gerhard Ungar  
Management Board

## REPORT OF THE SUPERVISORY BOARD



Hans Werner Aufrecht  
Chairman of the Supervisory Board

**Dear shareholders,**

For HWA AG 2011 was a successful year: sales revenues and all earnings indicators were noticeably better than in 2010. This improvement was largely a reflection of a substantial contract for engine development for a production car for a manufacturer of premium sports vehicles. The receipt of this contract enabled HWA AG to do even better in financial 2011 than the targets it had set itself internally. Further elements of this success were the high degree of commitment shown by all staff, strict cost management and optimised processes in research and production. HWA AG is well equipped to continue this record of success.

In 2011 HWA AG's Supervisory Board continued its customary close collaboration with the Management Board and the Company. In 2011 the Supervisory Board discharged its monitoring and control responsibilities under the law and the Company's articles of incorporation with all due care. It advised the Management Board on the management of the Company's affairs on an ongoing basis, and kept all aspects of management and the Company's business performance under close review. The Supervisory Board was directly and promptly involved in all decisions of fundamental importance to the wellbeing of the Company, or wherever statutory provisions or the articles of incorporation called for such involvement. The Management Board reported to the Supervisory Board in writing or orally on a regular basis and in a comprehensive and timely fashion. These reports included information on business performance, significant business events, earnings and liquidity, and the risk situation and risk management. Cooperation between the Boards was marked by detailed and open dialogue. In addition, the Chairman of the Supervisory Board was in regular contact with the Management Board. Other Supervisory Board members also maintained their contacts with the Management Board outside formal meetings, keeping themselves informed about ongoing business performance and significant business events and providing support and advice where needed.

### **Meetings of the Supervisory Board**

During financial 2011 the Supervisory Board met five times – including the financial statements meeting – in the performance of its duties. In these meetings the current state of the Company's affairs were discussed with the Management Board and explained in detail. These meetings took place on 02 March, 23 May, 15 September and 20 December, all in Affalterbach. After detailed review based on consultations and prior talks and reviews, the Supervisory Board approved the annual financial statements of HWA AG for financial 2010 in the annual financial statements meeting on 30 March 2011. The statutory auditor participated in the meeting. In addition to the formal meetings of the Supervisory Board, there was also a telephone conference on 9 August to discuss the half-yearly result for 2011.

The Management Board also provided the Supervisory Board with full information on urgent matters and matters of particular importance to the Company outside the regular meetings. All activities and transactions requiring the Supervisory Board's approval were discussed in depth in the Supervisory Board meetings. The main topics of the Board's deliberations were revenues and earnings trends, investment planning and the Company's current performance and future prospects. The development contract with a premium sportscar manufacturer for engines for a production sportscar was a major item of interest, as was the delivery of the customer race car SLS AMG GT3. The development of the new race cars for the new DTM together with the revised regulations for the new series were also important topics in the meetings.

#### **Membership of Management and Supervisory Boards**

There were no changes in the membership of the Management Board in 2011.

Under the Company's articles of incorporation the Supervisory Board consists of six members. At the request of the Management Board, Michael Schmieder, Managing Director of Schmieder Beteiligungs GmbH & Co.KG, resident in Mannheim, was appointed member of the Supervisory Board until the next Annual General Meeting by resolution of the Stuttgart District Court of 5 April 2011. He was then unanimously elected to the Supervisory Board in the Annual General Meeting of 23 May 2011. The new appointment to the Supervisory Board was made necessary by the resignation of Jürgen Hubbert, who stepped down for personal reasons.

The appointments of Supervisory Board members Hans Werner Aufrecht and Rolf Krissler ended with the Annual General Meeting of 23 May 2011. The appointments of the other Supervisory Board members, Christian Wolff, Willibald Dörflinger and Ayman Al-Abbasi will come to an end with the conclusion of the Annual General Meeting 2012. So that as far as possible the appointments of Supervisory Board members in future run concurrently, the Annual General Meeting of 23 May 2011 unanimously appointed or reappointed Messrs Aufrecht, Krissler and Schmieder to the Supervisory Board and at the same time reappointed messrs Wolff, Dörflinger and Al-Abbasi in advance. In the case of Supervisory Board members Wolff, Dörflinger and Al-Abbasi, the balance of their existing terms of office will be counted against the terms of their new appointments. The appointments of Supervisory Board members Aufrecht, Krissler and Schmieder now expire at the same time as those of the other Supervisory Board members.

In accordance with article 8(2) of the Company's articles of incorporation, the members of HWA AG's Supervisory Board are appointed for a period ending with the Annual General Meeting for the third financial year after the start of their appointments. The financial year in which their terms of office begins is not taken into account.

As at 31 December 2011, the Supervisory Board was made up of the following persons:

- Hans Werner Aufrecht, Chairman
- Christian Wolff, Deputy Chairman
- Ing. Willibald Dörflinger
- Rolf Krissler
- Ayman Al-Abbasi
- Michael Schmieder

### Annual statutory audit

By resolution of the Annual General Meeting of 23 May 2011, registered auditor Joachim Lutz, Weilheim-Teck, was appointed as statutory auditor of the Company's annual financial statements. The statutory auditor audited the annual financial statements prepared by the Management Board and the management report for the financial year ended 31 December 2011, and issued an unqualified audit opinion.

### Annual financial statements

The annual financial statements for 2011 together with the management report were laid before the members of the Supervisory Board on schedule. They were exhaustively discussed in the Supervisory Board's financial statements meeting. The statutory auditor participated in the meeting and reported on the major features of his audit. He was available to answer supplementary questions of the Supervisory Board. The Supervisory Board reviewed the statutory auditor's findings in detail, and approved the auditor's opinion. The auditor approved the annual financial statements on 10 March April as required under section 172(1) German Companies Act (AktG). The annual financial statements were thereby formally adopted. After extensive discussions, the Supervisory Board approved the Management Board's proposal for distribution of a dividend from the distributable profits.

### Supervisory Board's thanks

The Supervisory Board thanks the staff and the Management Board of HWA AG for their successful hard work and their dedicated efforts in financial 2011, and thanks the shareholders for their loyalty to the Company.

For the Supervisory Board



Hans Werner Aufrecht  
Chairman of the Supervisory Board

Affalterbach, April 2012



DTM season final  
2011, Hockenheim  
- Jamie Green wins  
sovereign in the  
last race of the  
AMG Mercedes  
C-Class

## HWA AG – THE STOCK

For stock markets 2011 was a turbulent year, with many extraneous factors exercising a significant influence even though of little direct relevance to the fundamentals of individual companies. The German stock market experienced its most serious reversals since 11 September 2001. The excessive national debt of many European countries and the USA, the downgrading of these countries by the rating agencies, and the resulting economic anxieties were major contributors to substantial fluctuations on the stock markets. The result was that all leading German indexes closed the year with double-digit losses.

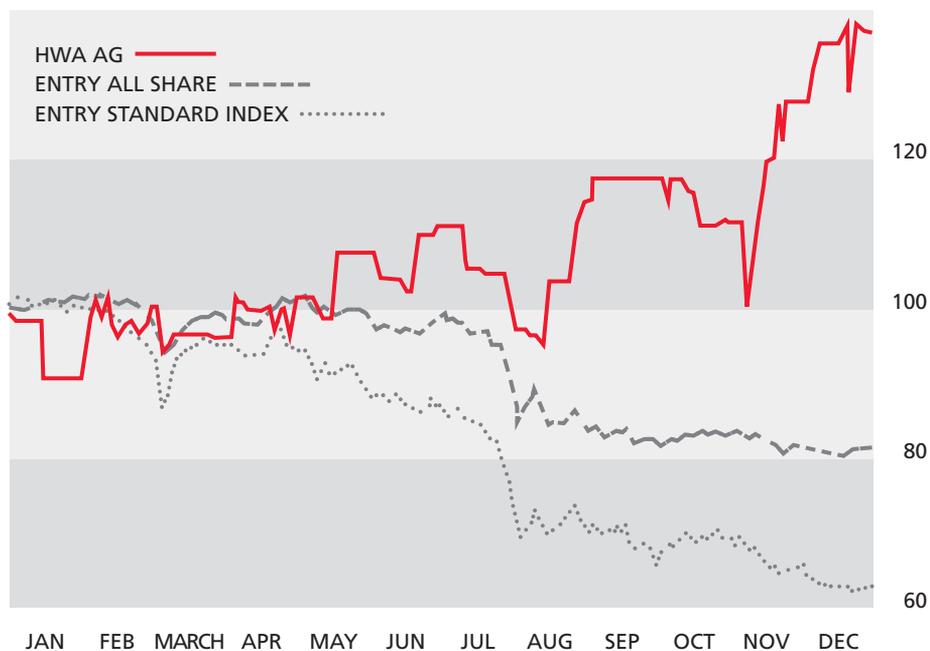
For the stock markets, 2011 was divided into two distinct halves. Despite the tensions between strong economic growth and dwindling confidence in the eurozone's stability, at the start of the year investors were still reasonably optimistic, and share prices advanced on a broad front. The earthquake in Japan caused a short-term dip in the first quarter, but just a few weeks later on 2 May the DAX reached what proved to be the year's high of 7,528 points, buoyed by the industrial boom in Germany. During the summer the tide turned. Fears caused by the continuing growth of budget deficits in the USA and the EU and the resulting concern that economic growth might falter became predominant. When the rating agency Standard & Poor's downgraded the U.S. federal government from the top rating of 'excellent' at the beginning of August, share prices fell dramatically. Germany's leading index, the DAX, bottomed out at 5,072 points in September. Towards the end of the year the markets started to recover, and the index closed the year at just under 7,000 points. By the end of 2011, however, all the leading German indexes were showing double-digit losses. Both the DAX and the SDAX lost 15%. The MDAX took the least punishment, with a fall of 13%, while the TecDAX dropped more than 20%. The Entry All Share Index, in which the HWA AG share is included, lost 18%, while the Entry Standard Index was hit the hardest of all the German indexes, slumping 35%.

In light of the significant decline in the indexes, HWA AG's stock performed very satisfactorily – in 2011 the share price increased by 33%! On 3 January 2011, the first day of trading after the New Year, HWA AG stock closed at EUR 12.65. It hit its low point of EUR 10.74 for the year in January, after which it began to gain ground. Contrary to the general trend, the share price continued to climb during the year and at the end of December was close to its high for the year. On the last trading day of 2011 the share closed at EUR 16.76. This means that HWA AG stock significantly outperformed all the indexes. This very pleasing performance is all the more impressive given that the share already increased in value by 36% in 2010, when it also outperformed nearly all the indexes. This means that the HWA AG share was and is one of the top performers.

As a consequence of our share's strong growth in 2011, HWA AG's market capitalisation has increased as well. At the end of the year it stood at EUR 86 million, which was EUR 21 million higher than a year earlier. The trading volume however was lower than in the previous year – in 2011 an average of 353 shares were traded each day, compared with 816 shares in 2010.

## HWA AG share at a glance

**Share price chart 2011 – Xetra**  
(Compared with Entry All Share Index)



Securities identification number (WKN)	A0LR4P
ISIN	DE000A0LR4P1
Stock exchange symbol	H9W
Trading segment	Entry Standard (part of Open Market) on Frankfurt Stock Exchange
Share type	Ordinary no par value bearer shares
Authorised capital	EUR 5,115,000.00
Shares in issue	5.115 million
Initial listing	19 April 2007
Listing price	EUR 25.13
Designated sponsors	Close Brothers Seydler AG

## Investor relations / press

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HWA AG attaches great importance to communications with both institutional and private investors. Our investor relations activities foster a continuous and open exchange of information with all participants in the capital markets, who we treat even-handedly. We make ourselves available to interested shareholders for one-on-one discussions or telephone conferences on a regular basis. In 2011 we continued to maintain close contacts with existing and potential investors. Since 2008 Close Brothers Seydler Research has been responsible for HWA's coverage. One of the most important events in last year's corporate calendar was the fourth Annual General Meeting of HWA AG, which was held on 23 May in Affalterbach. The AGM is also an important forum for maintaining personal contact with our investors.

The Investors Relations section of our website [www.hwaag.com](http://www.hwaag.com) provides current and potential shareholders with detailed information on the HWA AG share, and is an important information platform in our communications with shareholders and the capital market. The resources include press releases, half-yearly reviews and annual reports. There is also the option of subscribing to an e-mail distribution list for forthcoming Company news. The website is regularly updated by the Company.

## Annual General Meeting 2011

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The fourth Annual General Meeting since the initial stock market listing in 2007 took place on 23 May 2011. Around 60 shareholders met in the equestrian facility in Rotland in Affalterbach. Share capital with a nominal value of EUR 4,762,737 was represented at the Meeting, which is 93.11% of the Company's total share capital of EUR 5,115,000. We are very pleased with the interest shown by shareholders, especially the smaller ones.

The resolutions proposed by the Management were all approved unanimously.

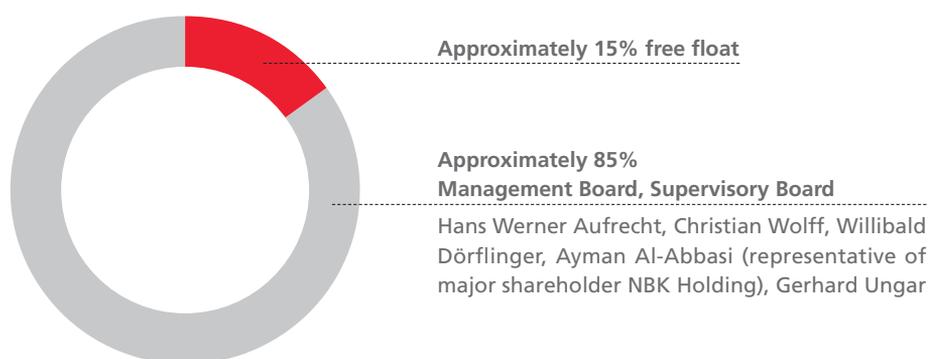
Items on the agenda on which shareholder resolutions were passed: payment of a dividend of EUR 0.50 per share out of distributable profits (item 2), discharge from liability of the Management Board (item 3) and Supervisory Board (item 4), appointment of registered auditor Joachim Lutz as statutory auditor for financial 2011 (item 5) and election of Hans Werner Aufrecht, Christian Wolff, Willibald Dörflinger, Ayman AL-Abbasi, Rolf Krissler and Michael Schmieder to the Supervisory Board (item 6). Michael Schmieder was appointed member of the Supervisory Board by decision of the Stuttgart District Court of 5 April 2011. His appointment ended with the Annual General Meeting, and he therefore submitted himself for election by the shareholders. Messrs Aufrecht, Wolff, Dörflinger, Krissler and Al-Abbasi were already members of HWA AG's Supervisory Board. Since the appointments of some members of the Supervisory Board ended with the end of the fourth Annual General Meeting, and so that as far as possible the appointments of Supervisory Board members in future run concurrently, HWA AG reappointed Supervisory Board members Wolff, Dörflinger and Al-Abbasi before the end of their terms at the same time as electing or reconfirming Supervisory Board members Aufrecht, Krissler and Schmieder.

## Financial calendar 2012

8 June 2012	Annual General Meeting of HWA AG in Affalterbach
30 August 2012	publication of HWA AG's half-yearly results

## Shareholdings

*Note: In virtue of its listing in the Entry Standard segment, HWA AG is not obliged to disclose information regarding shareholdings, and receives information from major shareholders on a voluntary basis. The information is in consequence unverified.*



Over the course of the year HWA AG's shareholder structure remained almost unchanged. Hans Werner Aufrecht and Qatar-based NBK Holding continue to be the largest shareholders. The Company's founder Hans Werner Aufrecht, MarchSixteen Finance Services, represented by Christian Wolff, Willibald Dörflinger through the Dörflinger Privatstiftung and Nasser Bin Khaled (NBK) Holding (all represented on the Supervisory Board) together with the Management Board hold about 90% of HWA AG's share capital. NBK Holding from Qatar holds about 28% of the shares.

## Dividend

At the Annual General Meeting in June 2012 the Management and Supervisory Boards will recommend the distribution of a dividend of EUR 0.65 per share for the past financial year from HWA AG's distributable profits for 2011, which amounted to EUR 19 million. HWA AG's long-term shareholder friendly dividend policy is to distribute a minimum of 50% of the distributable profit for the year to its shareholders. Based on the share price of EUR 16.76 at year's end, the distribution corresponds to a dividend yield of 3.9%.

## HWA AG

H.W.A. GmbH was founded by Hans Werner Aufrecht towards the end of 1998, and started business in 1999. It was transformed into a public limited company on 4 December 2006, and the new name, HWA AG, was entered in the commercial register in Stuttgart on 15 December 2006.

HWA AG was founded as a spin-off from AMG, the Mercedes customisation specialist, which was established in 1967 by Hans Werner Aufrecht. Towards the end of 1998 Aufrecht sold a majority interest in AMG Motoren- und Entwicklungsgesellschaft mbH, as it then was, to Daimler AG. As part of this transaction the motor racing business was spun off. It consisted of the current AMG-Mercedes DTM racing team in and parts of the vehicles and vehicle components business. These were transferred to HWA AG, which began business with around 80 employees taken over from Mercedes-AMG GmbH.

HWA's principal business is the development and production of high technology, luxury racing and passenger cars. The business is divided into two areas: the Company is a complete service provider to the motor racing business, and it is a development partner for vehicles and vehicle components for the premium segment of the automobile market.

### Motor racing

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In motor racing the primary focus is on participation in the German Touring Car Championship (DTM). HWA AG runs the official racing team for Daimler AG Motorsport as Team AMG-Mercedes. These services include everything required for successful racing operations. HWA has the sole responsibility for the development and construction of the race cars and their engines. It manages the racing team's operations from the original design to planning, preparing for and running the races. This also includes choosing and supporting the drivers, marketing the brand and working closely with Daimler AG in finding sponsors. HWA also produces and supports race cars and engines for independent customers who field their own racing teams in the DTM. It is responsible for technical support of the race cars in all its aspects. Together with Daimler AG, it is jointly responsible for marketing all vehicles. In 2011 there were ten competition races in five countries. The additional show event in Munich, which took place in the summer of 2011, was a special highlight of last season; the race was won by Bruno Spengler. In 2011 Team AMG-Mercedes had a total of nine race cars competing.

The 2011 DTM season started with a success: in the season's first race, at Hockenheim, Bruno Spengler was the winner. Ralf Schumacher came in third, earning his first place on the podium since joining the DTM circuit in 2008. He also came in second at Spielberg. Bruno claimed the victory on the Norisring, and Jamie Green won the season finale in Hockenheim. It was perhaps too much to expect that the successes of 2010 – winning both the Drivers and the Team Championship – could be repeated in 2011.

The DTM is HWA's core market in motor racing, and in collaboration with Mercedes-Benz it has been extremely successful in the series. In the new DTM, which began in 2000, Mercedes-Benz has won 80 of the 130 events. Overall Mercedes-Benz has been the victor in 165 DTM races since 1988 – almost half of the events staged. The HWA Team has won the driver's championship for Mercedes-Benz ten times: DTM 1992 and 1994 with Klaus Ludwig, DTM and ITC 1995, as well as DTM 2000, 2001, 2003 and 2006 with Bernd Schneider, DTM 2005 with Gary Paffett, and 2010 with Paul di Resta. This makes Team AMG-Mercedes the most successful team in DTM history.

In addition to participating in the racing season, in 2011 HWA AG was engaged in developing new race cars to comply with the new regulations. The three manufacturers – Mercedes-Benz, Audi and BMW – developed their race cars for 2012 with a large number of standard components, so as to significantly reduce the costs. The new monocoque is one of approximately 50 standard components that are identical in all the competing cars. These standard components include the brake systems, the transmission, the new paddle shift, the fuel tank and the rear spoiler. The use of standard components results in lower costs without reducing the scope for clever engineering in the aerodynamics, the chassis or the engine. The thrill and suspense of motor racing is preserved. The manufacturers can demonstrate their technical expertise while keeping costs under control.

#### Race calendar 2012

22	April	2012	(D)	Presentation Wiesbaden
29	April	2012	(D)	Hockenheimring Baden-Württemberg
06	May	2012	(D)	Lausitzring
20	May	2012	(GB)	Brands Hatch
03	June	2012	(A)	Spielberg
01	July	2012	(D)	Norisring
15	July	2012	(D)	Olympiastadion Munich
19	August	2012	(D)	Nürburgring
26	August	2012	(NL)	Circuit Park Zandvoort
16	September	2012	(D)	Motorsport Arena Oschersleben
30	September	2012	(E)	Valencia
21	October	2012	(D)	Hockenheimring Baden-Württemberg

## Outlook – motor racing

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The AMG-Mercedes Team had a great start to the 2012 season: in the season's first race, at Hockenheim, Gary Paffett was the winner and Jamie Green came in second. This season's drivers of the HWA Team's four new AMG Mercedes C-Class coupés are Jamie Green, Gary Paffett, Ralf Schumacher and Christian Vietoris. This season's DTM – the most popular international touring car series – features ten competition races in five countries. The fixtures include traditional circuits in Germany, international highlights and the well-known racetrack in Spielberg, Austria. In 2012 AMG-Mercedes has a total of eight race cars competing in the DTM. Starting in 2012, BMW has returned to compete in the series against Mercedes-Benz and Audi. The entry of a third manufacturer makes the series more attractive and promises a higher public profile for the coming years. For this year, the Management Board expects revenues in the motor racing business to remain stable.

## Vehicles and vehicle components

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In its vehicles and vehicle components business HWA AG carries out contract development work for customers in the automobile industry using its specialist racing skills and expertise. The Company is a much sought-after development partner, especially in the premium segment of the industry. With its contributions to the CLK-GTR, CLK DTM AMG and Mercedes-Benz SL 65 AMG Black Series, HWA AG has a substantial record of successful development activities. Following the successful delivery of the Mercedes-Benz SL 65 AMG Black Series, last year's new project was to develop and produce a GT3 version of the Mercedes-Benz SLS AMG in close cooperation with our partner Mercedes-AMG.

The SLS AMG GT3 is designed as a customer race car for sprint and long-distance racing. These race series for close-to-series GT cars are well known for the mixed field of entrants they attract, and for gripping races. The comparatively low cost is just one of the reasons why the series are becoming more and more popular all round the world. The new SLS AMG GT3 was developed to comply with international FIA GT3 regulations and can be entered in all GT3 series. The quality of the basic model combined with our competence guarantees that our customers are getting a competitive race car.

In all, more than 40 SLS AMG GT3 were delivered to customers in 2011, and their feedback has been very positive. In 2011 the race car started in more than 15 race series on four continents. Overall, it can safely be said that the SLS AMG GT3 was the most successful new customer race car in 2011. Just shortly after the first deliveries in March this close-to-series race car was racing successfully and finishing among the winners. There were a total of 22 victories during the year, and the highlight of the season was winning the FIA GT3 European Championship.

In the vehicles and vehicles components business HWA AG has also earned itself an outstanding reputation for the development and production of racing engines. The Mercedes-Benz Formula 3 M271 engine, which was developed on the basis of C-Class and E-Class production engines, was used for the first time nine years ago, at the start of the Formula 3 Championship in Hockenheim.

Since the Formula 3 Euro Series was started in 2003, drivers using Mercedes-Benz engines have won close to 80% of all races (149 victories in 185 races, of which 113 were double victories) and seven out of nine drivers titles.

In financial 2011 HWA AG was also successful in winning a substantial contract for engine development for a production sports car. The customer is a sports car manufacturer catering to the premium market. Work on the project began in 2011, and the contract has already had a beneficial impact on sales and more particularly on earnings.

### **Outlook – vehicles and vehicle components**

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For 2012 HWA AG is expecting a decline in sales in the vehicles and vehicles components business. Delivery of the SLS AMG GT3 continues, but – in line with the forecasts – volumes will not reach the high levels achieved in 2011. The Formula 3 engine business will be stable in 2012. Work on the engine development project for a production car is ongoing and will partly make up for the decline in sales from the SLS AMG GT3 project. Despite a slight drop in sales, the Management Board expects stable earnings from this business. The aim is to win further contracts for development projects, for which HWA AG is currently involved in detailed negotiations.



24-hour race  
in Dubai

- Successful completion of the development and test program used for the SLS AMG GT3
- The SLS AMG GT3 finished second in this race, 3rd place





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FALCON.COM

STIHL

DUNLOP 24H DUBAI 2011

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TW STEEL  
BIG IN MECHANICAL WATCHES

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DUBAI

# MANAGEMENT REPORT

## 1. Legal and business background of the Company in 2011

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HWA AG was formed towards the end of 1998 as a private limited company (GmbH) and began operations in 1999. It changed its legal form to public limited company (AG) on 4 December 2006. The change of form and the new name, HWA AG, were entered in the commercial register in Stuttgart on 15 December 2006. The Company's shares have been traded on the Frankfurt Stock Exchange in the Entry Standard segment, which is part of the Open Market, since 19 April 2007.

Since its formation, the Company's business activities have remained essentially the same – the motor racing business on the one hand, and the production of vehicles and vehicle components for road cars and customer sports cars on the other. Over the past few years the vehicles and vehicle components business has been continuously expanded.

In motor racing, the primary focus is on participation in the German Touring Car Championship (DTM). HWA AG operates the official racing team for Daimler AG as Team AMG-Mercedes, and is solely responsible for designing, developing, constructing and racing the race cars. The services it provides also include recruitment and care of race drivers, as well as support for two customer teams, which participate in the DTM using race cars built by HWA AG.

In its second business – vehicles and vehicle components – HWA AG carries out contract development and manufacturing work using its specialist racing skills and expertise. The focus here is predominantly on engine and vehicle development, in which field HWA AG is highly regarded as a supplier and manufacturer. The Company's development and production of racing engines also enjoys an excellent reputation. The services provided consist of the leasing and servicing of Formula 3 engines for various teams in different Formula 3 series.

## 2. Economic environment

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The global economy showed a marked upwards trend, in particular in the first half of 2011. Despite a slowing of growth in the second half of the year, the overall annual growth rate reached 3%. As in previous years, the thriving Asian economies were the engine that drove economic growth worldwide. China, with a growth rate of 8.9%, was the fastest growing BRIC economy, while the other BRIC countries are still subject to considerable risks associated with uncertain growth and inflation rates.

In 2011, the second year after the economic crisis, the German economy continued the process of recovery. For the first time, inflation-adjusted GDP reached a higher level than before the crisis, and compared with 2010 it grew by 3.0%. For the most part, the growth drivers were domestic: personal consumption in particular, which grew more rapidly than it had in the five preceding years, was a major pillar of strength. A strong increase in investments, in particular in machinery, equipment and vehicles (up 8.3%), and growth in exports of 8.2% were also major contributors to GDP growth. In 2011 German exports set a new record by breaking through the 1 trillion euro barrier.

The global automotive industry grew by 3.5% from 2010 to 2011. Increases in new cars registrations were largely attributable to countries on the North American continent and in Europe.

Approximately 3.17 million new cars were registered in Germany, an increase of 9.3% compared with the 2.9 million new registrations in 2010. Monthly fluctuations in new registrations made it difficult to discern a clear trend. However, the majority of manufacturers registered very respectable growth rates in the German market towards the end of 2011. The market share of domestic manufacturers was around 64.7%.

Except for city cars (down 12.4%), all vehicle size classes showed significant increases last year. The luxury car segment showed the highest gains, with 30.3%, and in this segment the Mercedes CLS (up 21.0%) headed the list. With the global presence and popularity of German manufacturers and their suppliers, the industry is expecting 2012 to be a good year for exports.

### 3. Business performance and earnings

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At EUR 63.8m, revenues for 2011 were higher by a significant 41.9% than the EUR 44.9m achieved in 2010. Of this, EUR 56.7m (2010: EUR 54.6m) came from Germany and EUR 11.1m (2010: EUR 4.4m) from abroad.

In the motor racing and vehicles and vehicle components businesses revenues were up on the previous year. Vehicle sales, spare parts and servicing for the SLS AMG GT3 as well as a contract for engine development resulted in a marked increase in revenues. The new DTM regulations, issued in 2009, made it necessary to redesign the DTM race cars.

As a result of the higher manufacturing output, costs of materials increased considerably – by 84.5% – from EUR 15.8m to EUR 29.2m. Expenses for raw materials and supplies increased by 158.4% from EUR 8.2m to EUR 21.2m. Two factors were responsible for this sharp increase: production and the provision of spare parts and servicing for the SLS AMG GT3 on the one hand, together with the development work for the new DTM race cars and the engine development contract on the other. Material costs as a proportion of total output increased from 34.3% to 44.2%.

Staff costs were also higher: the higher order volumes made additional work necessary, so that costs for personnel increased by 9.3% from EUR 15.1m to EUR 16.5m.

HWA AG's EBIT for 2011 was a satisfactory EUR 5.9m, compared with EUR 4.1m in 2010.

EBIT (earnings before interest and taxes) is used as a measure of operating performance at HWA AG and is calculated as follows:

#### Income statement

(EUR m, rounded)	2011	2010
<b>Revenues</b>	<b>63.8</b>	<b>44.9</b>
Changes in inventories	1.0	0.0
Other operating income	1.3	1.0
<b>Total output</b>	<b>66.0</b>	<b>46.0</b>
Raw materials	29.2	15.8
Staff costs	16.5	15.1
Depreciation and amortisation	2.1	2.4
Other operating expenses	12.2	8.6
<b>EBIT</b>	<b>5.9</b>	<b>4.1</b>

Net financing costs for financial 2011 were reduced by 24.2% to EUR 0.3m, reflecting higher income from interest on short-term deposits and lower interest costs on long-term liabilities.

Net profit for 2011 came to EUR 4.1m, after EUR 2.5m in the previous year.

#### 4. Assets and finances

Non-current assets increased by 14.8% from EUR 21m in 2010 to EUR 24.1m in 2011. This reflected the program of ongoing investment aimed specifically at securing HWA AG's long-term future. It included the purchase of a building plot for possible expansion. Current assets also increased by 15.7%, from EUR 18.7m in 2010 to EUR 21.7m in 2011. This was due to higher trade receivables and the larger inventories made necessary by current production levels and increased spare parts inventories for the SLS AMG GT3.

Compared with the previous year, provisions rose by 67.5%, reflecting higher tax provisions and other provisions for staff and raw material costs. Liabilities increased by 20.7% from EUR 12.9m to EUR 15.5m. The higher trade payables were the result of purchasing raw materials for the new DTM race cars and for current production and spare parts for the SLS AMG GT3. Liabilities to banks, on the other hand, were reduced.

Total assets grew from EUR 40.0m at the end of last year to EUR 46.0m at 31 December 2011. The share of non-current assets dropped marginally, from 52.4% to 52.3%, while the proportion of current assets increased from 46.8% to 47.1%. The increase in total assets meant that the equity ratio fell from 61.0% last year to 56.3%. Despite the decrease, HWA AG's equity ratio is still well above the industry average.

At the end of 2011 HWA AG's cash and cash equivalents stood at EUR 9.6m, compared with EUR 10.5m a year earlier. This slight decrease of 8.2% had two main causes: one factor was the cash outflow from investment activities as a result of the significantly higher investment volumes required to safeguard HWA AG's future, and another the negative cash flow from financing activities, caused by the dividend payment and the loan repayment.

## 5. Employees

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On average 216 people, including the Management Board, were employed in 2011 (2010: 202).

- 101 salaried staff
- 113 non-salaried staff
- 2 apprentices / trainees

## 6. Opportunities and risks

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HWA AG has installed information systems and processes to ensure that potential risks are identified as early as possible. This allows the Management to initiate effective measures in good time.

After weathering the global economic crisis triggered by the financial crisis in 2008 and 2009, the key economies and industries recovered in 2010 and 2011 at breathtaking speed. The German automobile industry in particular, from makers of premium cars to volume manufacturers, reported new sales records from month to month. GDP growth rates in some economies recovered to nearly pre-crisis levels.

Despite the encouraging growth rates in the last two years, however, numerous risks remain. The excessive national debt of some European countries, which in the medium to long term could lead to the failure of the European Monetary Union, could have a disastrous effect on these currently high growth rates. The conflict zones in the Near East constitute a further hazard, and the ongoing crises in the area could also put a brake on global recovery.

The automobile racing business is still HWA AG's core business, and this is very much dependent on decisions made at Daimler AG. The many years of close cooperation with Mercedes-Benz in motor racing reduces the risk but cannot eliminate it entirely. Regular contact ensures that HWA AG's Management is included in the decision-making process at an early stage, allowing it to react appropriately.

The return of BMW to the German Touring Car Masters Championship (DTM) is an important step towards a stable future for the series. The risk that the series could come to an end is nonetheless a scenario that has to be taken into account, since the racing is ultimately financed by sponsors and broadcasting rights. Increasing the number of manufacturers is an important step towards maintaining the attractiveness of the series, especially for sponsors

and the media. Additionally, the successes of Team AMG-Mercedes in the DTM over the past years is an important marketing instrument for the Mercedes-Benz brand.

In the vehicle and vehicle components business sales risks are the main concern. Given the smallness of the overall market for GT cars worldwide, there are market and sales risks in relation to the SLS AMG GT3. The current wide variety of brands available means that competition is fierce. The racing regulations could pose a risk: future changes to rules and regulations could limit the use of GT3 cars in racing. Following the successful introduction of the SLS AMG GT3, the risks of warranty claims or goodwill rebates have significantly decreased.

The leasing and sale of Formula 3 engines has continued to stabilise, albeit at a low level. Threats to the continued existence of the existing racing series also represent a considerable potential for risk. Formula 3 customers continue to be highly dependent on sponsors. In light of the existing risks, there could be a drop in the sale or leasing of engines.

As well as market and sales risks, there are financial risks to be considered. Trade receivables disclosed in the balance sheet at the end of the year represent only a small risk. Existing risks have been adequately provided for. Possible changes in exchange rates, interest rates or market prices represent a small to negligible risk, since the bulk of our business is transacted in euro.

The derivative financial instruments used by the Company to hedge interest rate risk are two interest rate swaps. The transaction took place in 2009, when it was used to lock in the historically low interest rate long-term. Since the swaps and the Euribor loans are measured as a single unit, there is no associated accounting risk.

## **7. Research and development**

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In all its businesses, HWA AG possesses the extensive resources required for the development of race cars, customer sports cars, car engines and vehicle components. The use of state-of-the-art software for simulation and design ensures that HWA AG's innovative developments are always up to the latest technical standards.

HWA AG also has the comprehensive specialised knowledge and the broad spectrum of resources necessary to develop its own electrical and electronic systems for race cars, customer sports vehicles and vehicle components. This includes the construction and programming of engine electronics as well as engine simulation and evaluation.

To be able to offer its customers top quality service, HWA AG has built up an outstanding infrastructure, which allows it to thoroughly test and service the vehicles at the track, in the factory or wherever needed.

To ensure that its products continue to meet these high standards, HWA AG will in the future continue to put a special emphasis on research and development. This will be accompanied by detailed planning and carefully targeted investments.

## 8. Business and expected development of the Company

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The results for financial 2011 were thoroughly respectable. Strenuous efforts are however required in the current financial year to enable us to achieve equally satisfactory results – both on the sports side and financially. The Company's position as compared with earlier years has further improved – both internally and with respect to the external business environment.

In 2012 revenues in the motor racing business will increase. After several years of absence, BMW is returning to the DTM series, which will mean more intense competition. In this new situation the new DTM 2012 rules and regulations have meant that the DTM race cars had to be redesigned. For the first time in many years the manufacturers Mercedes-Benz, Audi and BMW will again be competing with each other. We expect the competition to be fiercer, and much more exciting. To make sure that Team AMG-Mercedes is able to compete effectively, specific additional investments in infrastructure and personnel will be necessary.

In the vehicles and vehicle components business sales are expected to drop. The customer sports car SLS AMG GT3 was responsible for most of the sales in 2011, but we expect fewer sales in 2012. On the other hand, spare parts business and servicing for the SLS AMG GT3 is expected to continue at satisfactory levels. The sale and leasing of Formula 3 engines has largely remained stable. A new engine development project was acquired in 2011, which includes a development contract. Work on the contract is expected to progress satisfactorily in 2012.

In financial 2012 HWA AG will once again be faced with numerous challenges, but in spite of all the challenges the outlook is favourable. The Company's performance is rock-solid, even though lower sales are predicted for 2012. The product-dependent drop in sales will largely be balanced out by a reduction in expenses for raw materials. However, because of the higher number of projects and the greater variety of products – and in particular because of the SLS AMG GT3 – higher inventories can be expected. Overall, we expect a slight increase in the number of employees in 2012.

In financial 2012 the Management of HWA AG will again be aiming for a respectable level of earnings on a sound financial base.

## 9. Events after balance sheet date

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There were no events after balance sheet date which could lead to a change in the assessment of the Company's situation.

Affalterbach, 30 March 2012



Gerhard Ungar



DTM race  
Spielberg

- Second place and second podium for Ralf Schumacher



## ANNUAL FINANCIAL STATEMENT

## Balance sheet as at 31 December 2011

		31.12.2011	31.12.2010
ASSETS	EUR	EUR	EUR '000
<b>A. NON-CURRENT ASSETS</b>			
<b>I. Intangible assets</b>			
IT software and licences		128,509.17	383
<b>II. Property, plant and equipment</b>			
1. Land and buildings	19,684,966.47		16,507
2. Plant and machinery	1,119,179.99		1,007
3. Other assets, plant and office equipment	3,141,108.78		3,071
		<b>23,945,255.24</b>	<b>20,585</b>
		<b>24,073,764.41</b>	<b>20,968</b>
<b>B. CURRENT ASSETS</b>			
<b>I. Inventories</b>			
1. Raw materials and supplies	5,846,635.30		4,500
2. Work in progress	1,230,882.37		280
3. Payments in advance	6,000.00		22
		<b>7,083,517.67</b>	<b>4,802</b>
<b>II. Receivables and other assets</b>			
1. Trade receivables	4,426,047.43		3,019
2. Other current assets	502,134.18		394
		<b>4,928,181.61</b>	<b>3,413</b>
<b>III. Securities</b>			
Other securities		105,817.50	106
<b>IV. Cash in hand and at banks</b>		9,542,771.43	10,401
		<b>21,660,288.21</b>	<b>18,722</b>
<b>C. PREPAYMENTS AND ACCRUED INCOME</b>		<b>234,350.78</b>	<b>267</b>
<b>D. DEFERRED TAX ASSETS</b>		<b>64,000.00</b>	<b>60</b>
		<b>46,032,403.40</b>	<b>40,017</b>

		31.12.2011	31.12.2010
<b>EQUITY AND LIABILITIES</b>	EUR	EUR	EUR '000
<b>A. EQUITY</b>			
<b>I. Share capital</b>		<b>5,115,000.00</b>	<b>5,115</b>
<b>II. Revenue reserves</b>			
1. Statutory reserve	511,500.00		511
2. Other reserves	1,310,000.00		1,310
		<b>1,821,500.00</b>	<b>1,821</b>
<b>III. Retained earnings</b>		<b>19,000,694.01</b>	<b>17,493</b>
		<b>25,937,194.01</b>	<b>24,429</b>
<b>B. PROVISIONS</b>			
1. Provisions for taxation	509,000.00		303
2. Other provisions	4,055,324.63		2,422
		<b>4,564,324.63</b>	<b>2,725</b>
<b>C. LIABILITIES</b>			
1. Amounts due to banks	8,777,770.00		9,567
2. Payments received on account of orders	3,000,000.00		0
3. Trade payables	3,305,551.45		2,601
4. Other liabilities thereof taxes EUR 331,327.22 (2010: EUR 642,000)	447,563.31		695
		<b>15,530,884.76</b>	<b>12,863</b>
		<b>46,032,403.40</b>	<b>40,017</b>

## Income statement for the year ended 31 December 2011

	EUR	2011 EUR	2010 EUR '000
1. Sales revenues	63,753,970.69		44,929
2. Increase in inventories of work in progress and finished goods	950,882.37		43
3. Other operating income thereof income from foreign currency translation EUR 8,326.05 (2010: EUR 363,000)	1,306,040.27		1,016
		<b>66,010,893.33</b>	<b>45,988</b>
4. Raw materials, supplies and services			
a) Expenses for raw materials and supplies	21,229,052.24		8,217
b) Expenses for external services	7,940,617.23		7,596
5. Staff costs			
a) Wages and salaries	14,383,862.12		13,080
b) Social security and pension contributions thereof pension contributions EUR 12,568.33 (2010: EUR 12,000)	2,154,036.88		2,052
6. Depreciation and amortisation of tangible and intangible non-current assets	2,126,661.05		2,374
7. Other operating expenses thereof expenses from foreign currency translation EUR 4,842.31 (2010: EUR 166,000)	12,219,138.03		8,586
		<b>60,053,367.55</b>	<b>41,905</b>
8. Other interest and similar income	98,885.90		67
9. Interest and similar expenses	435,995.88		512
		<b>-337,109.98</b>	<b>-445</b>
10. Profit from ordinary activities		5,620,415.80	3,638
11. Income tax expense thereof credit from change in deferred taxes EUR 4,000 (2010: expense of EUR 750,000)	1,527,718.78		1,081
12. Other taxes	27,259.76		29
		1,554,978.54	1,110
13. Profit for year		4,065,437.26	2,528
14. Profit brought forward from previous year		14,935,256.75	14,987
15. Allocation to statutory reserve		0.00	22
<b>16. Retained earnings</b>		<b>19,000,694.01</b>	<b>17,493</b>

## Cash flow statement 2011

(EUR '000, rounded)	2011 EUR '000	2010 EUR '000
<b>1. Cash flow from operating activities</b>		
Net profit for the year	4,065	2,528
Depreciation and amortisation of non-current assets	2,127	2,374
Increase (+) / decrease (-) in provisions	1,839	863
Credit (-) / expense (+) from changes in deferred taxes	-4	750
Other non-cash expenses (+) / income (-)	606	239
Gains (-) / losses (+) on disposal of non-current assets	-818	5
Increases (-) / decreases (+) in inventories, trade receivables and other assets	-4,370	114
Increases (+) / decreases (-) in trade payables and other liabilities	3,458	827
<b>Cash flow from operating activities</b>	<b>6,903</b>	<b>7,700</b>
<b>2. Cash flow from investing activities</b>		
Receipts from disposals of property, plant and equipment	884	34
Investments in property, plant and equipment	-5,285	-387
Investments in intangible assets	-13	-66
<b>Cash flow from investing activities</b>	<b>-4,414</b>	<b>-419</b>
<b>3. Cash flow from financing activities</b>		
Distributions to shareholders	-2,558	0
Repayment of bank borrowings	-789	-2,122
<b>Cash flow from financing activities</b>	<b>-3,347</b>	<b>-2,122</b>
<b>4. Cash and cash equivalents at end of year</b>		
Changes in cash and cash equivalents (subtotal items 1–3)	-858	5,159
Cash and cash equivalents at beginning of year	10,507	5,348
<b>Cash and cash equivalents at end of year</b>	<b>9,649</b>	<b>10,507</b>
<b>5. Represented by</b>		
Liquid assets	9,543	10,401
Securities	106	106
<b>Cash and cash equivalents at end of year</b>	<b>9,649</b>	<b>10,507</b>

## Non-current assets movement statement for the year ended 31 December 2011

	Acquisition and construction costs			31.12.2011 EUR
	1.1.2011 EUR	Zugänge EUR	Abgänge EUR	
<b>I. Intangible assets</b>				
IT software and licences	2,800,260.59	12,618.84	0.00	2,812,879.43
<b>II. Property, plant and equipment</b>				
1. Land and buildings	24,718,132.73	4,017,869.32	0.00	28,736,002.05
2. Plant and machinery	8,360,142.82	361,351.73	0.00	8,721,494.55
3. Other assets, plant and office equipment	11,355,339.32	906,089.83	441,210.86	11,820,218.29
	<b>44,433,614.87</b>	<b>5,285,310.88</b>	<b>441,210.86</b>	<b>49,277,714.89</b>
	<b>47,233,875.46</b>	<b>5,297,929.72</b>	<b>441,210.86</b>	<b>52,090,594.32</b>

Accumulated depreciation and amortisation			Carrying values		
1.1.2011 EUR	Zugänge EUR	Abgänge EUR	31.12.2011 EUR	31.12.2011 EUR	31.12.2010 EUR '000
2,417,342.26	267,028.00	0.00	2,684,370.26	128,509.17	383
8,210,840.58	840,195.00	0.00	9,051,035.58	19,684,966.47	16,507
7,353,537.52	248,777.04	0.00	7,602,314.56	1,119,179.99	1,007
8,283,928.18	770,661.01	375,479.68	8,679,109.51	3,141,108.78	3,071
<b>23,848,306.28</b>	<b>1,859,633.05</b>	<b>375,479.68</b>	<b>25,332,459.65</b>	<b>23,945,255.24</b>	<b>20,585</b>
<b>26,265,648.54</b>	<b>2,126,661.05</b>	<b>375,479.68</b>	<b>28,016,829.91</b>	<b>24,073,764.41</b>	<b>20,968</b>

# NOTES

## General

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These annual financial statements have been prepared in accordance with section 242 et seqq and section 264 et seqq of the German Commercial Code (HGB), together with the applicable provisions of the German Companies Act (AktG) and the company's articles of incorporation. The provisions governing large companies apply.

The income statement has been prepared using the cost of sales method.

## Accounting and valuation principles

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In preparing the annual financial statements the following accounting and valuation principles have been applied essentially unchanged from last year.

**Intangible assets** acquired are recognised at cost of acquisition and where appropriate are amortised over their expected useful lives on a straight-line basis over three or five years.

**Property, plant and equipment** is recognised at cost of acquisition or construction and where appropriate is depreciated on a straight-line basis over its expected useful life. Low value assets with a value of up to EUR 1,000.00 are written off immediately and in departure from the tax regulations. Additions to property, plant and equipment are depreciated rateably.

Inventories of raw **materials and supplies** are recognised at the lower of average cost or net realisable value.

**Work in progress and finished goods** are valued at cost of production, including not only direct material, labour and other costs but also indirect material costs and production overheads. Interest expense and general administrative overheads are not included.

All recognisable risks of holding **inventories** arising in connection with slow-moving stocks, reduced market values and lower replacement costs are reflected in appropriate writedowns.

With the exception of reservations of title customary in the trade, inventories are free of third party rights.

**Receivables and other assets** are recognised at their nominal value. For risks attaching to individual items, specific provisions are made; general credit risk is the subject of general provisions.

**Other securities** are recognised at acquisition cost.

**Other provisions** are made for all liabilities of uncertain amounts and for potential losses on pending transactions. The amounts provided are the amounts deemed necessary in prudent commercial judgement.

**Liabilities** are recognised at the amounts payable.

**Deferred taxation** is calculated on temporary differences (including those not likely to reverse in the foreseeable future) between the carrying amounts of assets, liabilities and accruals for the purposes of financial accounting and their carrying values for tax purposes, and on tax loss carryforwards. The amounts of deferred tax liabilities or assets are calculated using the rates of taxation expected to apply to the Company at the time the differences are expected to reverse. The amounts of tax so calculated are not discounted.

**Foreign currency assets and liabilities** with remaining maturities of one year or less have as a general rule been translated using the mean spot rate at balance sheet date.

Where **hedge accounting** in the meaning of section 254 HGB is applied, the accounting and valuation policies applied are as follows.

Economic hedging relationships are accounted for by forming valuation units: The counter-vailing positive and negative changes in value are recognised gross in the income statement.

## Notes on the balance sheet

### Non-current assets

Changes in individual non-current asset categories, including depreciation and amortisation for the year under review, are shown in the non-current assets movement schedule.

### Accruals

This includes a disagio of kEUR 6.

### Deferred taxes

Deferred tax assets were made up as follows:

	Carrying value financial accounts	Carrying value tax purposes	Difference	Effective in- come tax rate	Deferred Taxes
	EUR '000	EUR '000	EUR '000	%	EUR '000
Low value assets	0	172	172	29	50
Long service benefits provision	152	105	47	29	14
					<b>64</b>

### Authorised share capital

The Company's authorised share capital is divided into 5,115,000 no par value bearer shares.

With the approval of the Supervisory Board, the Management Board is until 22 May 2013 authorised to increase the authorised capital in one or more tranches by a total of EUR 2,557,500 for contributions in cash or in kind.

### Provisions

Other provisions are principally for unconsumed vacation, long-service payments, staff bonuses and profit shares, outstanding commissions and rework costs.

### Liabilities

Of the amounts due to banks, EUR 5,889,000 had remaining maturities of between two and five years and EUR 2,100,000 remaining maturities of more than five years. EUR 5,034,000 was secured by charges on real property. Other liabilities had remaining maturities not exceeding one year.

### Other financial obligations

	EUR '000
Obligations under service, rental and leasing agreements	1,324
Purchase commitments	7,644

The agreements come to an end between 2012 and 2015.

### Derivatives

Two interest rate swaps have been taken out to hedge interest rate risk on two variable rate loans totalling EUR 8.6m, as follows:

	Basic interest rate	Fixed interest rate	Amount	Maturity	Market value
		%			EUR '000
Swap 1	3-month Euribor	3.04	EUR 3,000,000	30.9.2014	-155
Swap 2	3-month Euribor	3.57	EUR 5,600,000	30.9.2019	-443

Derivatives are valued on the basis of current market information using standard market valuation methods. Since the sole purpose of the derivative transactions is to hedge the related loans, the loan and the corresponding derivatives are valued as a single unit.

### Restriction on distributions

The recognition of deferred tax assets means that under section 268(8) HGB there is a restriction on distributions of EUR 64,000.

## Notes to the income statement

	2011		2010	
	EUR '000	%	EUR '000	%
Sales revenues by region				
Germany	52,611	82.5	40,466	90.2
Elsewhere	11,143	17.5	4,463	9.8
	<b>63,754</b>	<b>100.0</b>	<b>44,929</b>	<b>100.0</b>

### Other operating income

Income relating to prior years consisted principally of accounting gains on disposal of non-current assets (EUR 853,000) and income from the release of provisions (EUR 128,000).

## Other information

### Supervisory Board

- Hans Werner Aufrecht, businessman                      Chairman
- Christian Wolff, businessman                                  Deputy Chairman
- Ayman Al Abassi, Chief executive officer
- Willibald Dörflinger, businessman
- Rolf Krissler, tax adviser
- Michael Schmieder, businessman  
(from 30 March 2011)

The remuneration of the Supervisory Board for the purposes of section 113 German Companies Act (AktG) amounted to EUR 26,000.00.

There are consultancy agreements with some members of the Supervisory Board. For the year under review fees under those agreements totalled EUR 850,000.

### Management Board

- Gerhard Ungar

### Employees

Average number of employees during the year under review:

Non-salaried staff	113
Salaried staff	101
	<b>214</b>
Trainees	2
	<b>216</b>

**Auditor's remuneration**

	EUR '000
Audit services	27.5
Other services	11.5
	<b>39.0</b>

**Recommended distribution of profits**

The Management Board, with the agreement of the Supervisory Board, proposes to distribute a dividend of EUR 0.65 per share and to carry forward the balance of distributable profits into the new year.

Affalterbach, 10 April 2012

The Management Board

**AUDITOR'S REPORT**

I submit the following audit report on the annual financial statements and the management report of HWA AG:

"I have audited the annual financial statements – consisting of balance sheet, income statement and attached notes – together with the accounts and records and the management report of HWA AG, Affalterbach, for the financial year ended 31 December 2011. The accounts and records, and the preparation of the annual financial statements and the management report in accordance with the provisions of German commercial law are the responsibility of the Company's management. It is my responsibility, on the basis of my audit, to give an opinion on the annual financial statements together with the accounts and records and the management report.

I have carried out my audit of the annual financial statements in accordance with section 317 German Commercial Code (HGB) and the principles applicable to the annual statutory audit as established by the German Institute of Auditors (IDW). These require that the audit be so planned and carried out that errors and breaches that materially affect the presentation of the Company's assets, finances and earnings in the annual financial statements prepared in accordance with generally accepted accounting principles and in the management report will with reasonable certainty be detected. The planning of the audit reflects the knowledge of the Company's business activities and the economic and legal environment in which it operates, together with expectations as to possible sources of error. As part of the audit, the effectiveness of the system of internal control as it affects accounting, together with evidence supporting the information contained in the accounts and re-

cords, the annual financial statements and the management report is assessed, predominantly on a test basis. The audit includes the assessment of the accounting principles applied and the material estimates made by the Company's management, together with an evaluation of the overall presentation of the annual financial statements and the management report. I believe that my examination forms a reasonable basis for my opinion.

My examination provided no grounds for objection.

In my opinion, based on the information acquired in the course of my examination, the annual financial statements comply with the statutory requirements and present in accordance with generally accepted accounting principles a true and fair view of the assets, finances and earnings of the Company. The management report is in agreement with the annual financial statements and presents an appropriate view of the state of the Company's affairs and of the opportunities and risks of its future business."

Weilheim-Teck, 10 April 2012

Lutz  
Wirtschaftsprüfer

## EVENTS 2012

8 June 2012	Annual General Meeting of HWA AG in Affalterbach
30 August 2012	publication of HWA AG's half-yearly results

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